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Social capital in entrepreneurial family businesses: the role of trust

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Abstract

Purpose – The purpose of this paper is to provide empirical insights to understanding trust as a relational form of social capital, and its effects on entrepreneurial processes, in small- and medium-sized family businesses.

Design/methodology/approach – This paper adopts a qualitative case-study approach, with data from fieldwork interviews, observations, and secondary sources analysed by using interpretative methods.

Findings – Although multiple types of trust exist concurrently in small- and medium-sized Chinese family businesses, it is interpersonal trust on the basis of goodwill and competence that prevails, while contractual trust is weak and marginal. Three patterns of trusting relationships are identified, each of which has both positive and negative effects on entrepreneurship and innovation in family businesses. There is a potential "dark side" of trust, which incurs extra cost and commitment to small- and medium-sized family businesses in their entrepreneurial processes.

Research limitations/implications – Future research with larger sample sizes is suggested to generalise the insights, by using both qualitative and quantitative methods. More empirical work is needed to further clarify the antecedents of trust as a social capital and the potential "dark side" of trust in small- and medium-sized family businesses, particularly across generations.

Practical implications – Family business owner-managers should try to avoid relying on a single type of trust, which may incur extra costs to the entrepreneurial processes. They need to better understand why they trust certain actors in their business and social networks before assigning resources to specific business activities. Policy makers are suggested to recognise the "benefits" of the traditionally family-oriented values and that kinship-based trust is also a relational form of social capital and can produce entrepreneurial outcomes.

Originality/value – The paper critically reviews existing literature on social capital, trust, entrepreneurship, and family business at their point of intersection and identifies gaps and oversights. Drawing on case studies from China, the paper explores different patterns in which trust develops in second-generation small- and medium-sized Chinese family businesses and their varying effects on entrepreneurship.

Keywords China, SME, Family business, Entrepreneurship, Trust, Social capital
Paper type Research paper

Introduction

What is social capital and how does it influence business operations are two questions that attract growing research interest. In the lack of a consensus on its definition, there is a general agreement on that social capital is a set of resources based on relationships and networks (Putnam, 1995) and are exploitable for business outcomes (Alder and Kwon, 2002). Nahapiet and Ghoshal (1998) identify three forms of social capital, namely: structural, cognitive, and relational. Each is of particular importance to

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business organisations and their performance (Arregle *et al.*, 2007). In this paper, we focus on trust as a relational form of social capital (Pearson *et al.*, 2008) to understand its effects on entrepreneurial family businesses.

Since its emergence, family business research has been conducted across multiple disciplines and is arguably at the intersection of many areas where social capital, particularly the notion of trust, has been investigated. Cruz *et al.* (2010) argue that family businesses – especially those of a small to medium size – are at an advantage in capitalising on trust, which is not just due to the long-term family relationships (Chrisman *et al.*, 2007), but also the transaction-based business networks (Anderson *et al.*, 2005; Gedajlovic and Carney, 2010). The literature suggests that trust can be an important source of competitive advantage for family businesses (Arregle *et al.*, 2007; Steier, 2001) and therefore needs to be sustained to benefit the firm's performance in the long run (Sundaramurthy, 2008).

In the entrepreneurship literature, on the other hand, the role of social capital, especially that of trust, in the creation and growth of small- and medium-sized enterprises (SMEs), has recently received much attention (Welter, 2012). It is evident that trust, as a relational form of social capital, is effective in reducing business transaction costs in environments unfamiliar to the firm (Manolova *et al.*, 2007; Puffer *et al.*, 2010), where uncertainties frequently produce potential risks. Sarasvathy (2001, p. 244) argues that entrepreneurs are typically pursuing "ambiguous, changing and constructed goals" with a set of means that they have control over, while the processes underpinning entrepreneurship are often based on unfamiliar and unstable socio-economic relations. Given such circumstances, trust often serves as an "adaptor" or "lubricant" in these processes, translating the complex and formal transactional relations into flexible and informal bonds between actors, and contributing to the development of social capital. Following the rationale of Burt (1997), social capital is generally non-tradable and inimitable, hence a unique resource to facilitate the entrepreneur's opportunity creation and exploitation through the use of entrepreneurial networks that enable access to resources beyond the boundaries of the network (Anderson *et al.*, 2005).

Researchers tend to agree that family businesses are an enduring institution for entrepreneurship (Craig *et al.*, 2009; Pistrui *et al.*, 1997), usually with an entrepreneurial culture underpinning family entrepreneurial teams (Discua Cruz *et al.*, 2012, 2013). This is partially because by choosing to be entrepreneurial, family businesses are more likely to sustain their growth and performance across generations (Steier, 2001, 2007). At the intersection of the family system and the business system, family businesses provide combinations of relations and values from both systems, including the trusting relationships, which yield unique and important influences on entrepreneurship over time (Shi, 2014; Shi and Dana, 2013). Therefore, family businesses provide a rich context in which the effects of trust on entrepreneurship can be explored.

However, empirical research that seeks to identify and explain the nuances of trust – particularly its sources and levels – and their effects on cross-generation entrepreneurship in small- and medium-sized family businesses tends to be inadequate and fragmented. Existing literature generally takes a static and single-dimensional view (Lewicki *et al.*, 2006; Sundaramurthy, 2008) and claims that trust, in an unspecified form, is conducive to entrepreneurship in family businesses, mainly because trust strengthens relationships in the family and potentially constitutes a source of competitive advantage for the business (Dyer, 2012). While intuitively appealing, this view has recently been criticised and the scholarly conversation has been directed to the dynamics and multi-dimensionality of the notion of trust (e.g. Welter, 2012), which is conceptually interesting. Also, a potential

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"dark side" of trust has been suggested, as high levels of trust may be associated with "blind faith, amoral familism, and complacency" (Eddleston *et al.*, 2010, p. 1044). Empirical evidence is needed to explore the sources and types of trust, and their effects on the firm's performance. The exploration is still in its infancy (e.g. Discua Cruz *et al.*, 2013; Prause *et al.*, 2013) and the normative belief in the "benefits" – real or perceived – of trust, and social capital, for sustained entrepreneurship prevails. In this paper, we draw on case studies from China and endeavour to answer two specific questions:

(1) Where does trust originate in family businesses?

(2) How does trust, as a relational form of social capital, influence the entrepreneurial process in family businesses?

In answering these questions, we attempt to extend our understanding of the nuances between trust and entrepreneurship in the family business context, and contribute to the ongoing conversations pertaining to social capital and entrepreneurship (e.g. Light and Dana, 2013; Zhang, 2010), which have recently begun to include a family business perspective (e.g. Arregle *et al.*, 2007; De Massis *et al.*, 2013; Discua Cruz *et al.*, 2013; Eddleston *et al.*, 2010; Hubler, 2011; Kansikas and Murphy, 2011).

The organisation of this paper is as follows. First, we review existing literature on trust and entrepreneurship, starting with an overview of trust and its relations with social capital and entrepreneurship. We then narrow down to focus on the role of trust as a relational form of social capital in family businesses. In the next section, we "set the scene" and highlight China as an ideal "laboratory" where the intersection of social capital, trust, family business, and entrepreneurship can be investigated, followed by an overview of research methodology. Consequently, findings are reported and the discussion focuses mainly on the identified patterns of trust and their effects on entrepreneurship in family businesses.

Overall, our study makes three contributions. First, we contribute to the theorisation of trust as a dynamic and relational form of social capital that influences entrepreneurship in family businesses. The inductive nature of the study led to a conceptual model capturing patterns of trust in family businesses and their varying effects on entrepreneurial processes and outcomes. Second, we provide insights into the role of trust in a Chinese family business context, which is characterised by constant changes and transitions across generations. Third, we extend the knowledge of social capital by documenting the "side effects" of trust on entrepreneurial processes, hence, questioning the "benefits" of social capital. To deepen this line of inquiry, we call for future efforts that clarify the dimensionality of trust as a social capital, and further explore its "dark side" in family business entrepreneurship.

Literature review

In this section, we first review existing literature on the concepts of social capital and trust. We then concentrate on the role of trust, as a relational form of social capital, in entrepreneurship and family business. Essentially, we consider trust as a relational form of social capital, and family business as an important institution for entrepreneurship. Drawing on this, our study attempts to provide empirical and conceptual links between trust, as social capital, and entrepreneurship within family businesses.

An overview of social capital

In general, social capital refers to a particular set of resources embedded in durable networks and interactivities that are useful for creation of value and improvement of

productivity (Alder and Kwon, 2002; Antoldi *et al.*, 2011). It is distinctive from other forms of capital, such as human capital and financial capital, as it typically derives from, and depends on, interactions between social actors, rather than being inherent independently in a single actor (Bourdieu, 1985; Nahapiet and Ghoshal, 1998).

Most prominently, two perspectives of social capital have emerged, namely structural holes and network closure. Burt (1992) suggests that social capital is the result of structural holes that are inherent in a network structure, enabling an individual to broker between unconnected individuals within his or her network. Conversely, Coleman (1988) indicates that social capital is the result of network closure, allowing for access to information and effective sanctions within the closed network. Burt (2000) submits that due to the network closure, there is an effective means for the development of trust, as the sanctions that group members face from deflecting on the group are an effective control mechanism that ensures behaviour consistent with the norms and expectations of the group. While these perspectives are often viewed as opposite ends of a spectrum, both types of social capital are essential for the success of an organisation (Salvato and Melin, 2008). For instance, Kontinen and Ojala (2010) highlight that in family business internationalisation, network ties become more embedded, as the trust associated with the relationship increases. Therefore, we adopt the view of Nahapiet and Ghoshal (1998, p. 243), who broadly defined social capital as "the sum of the actual and potential resources embedded within, available through, and derived from the network of relationships possessed by an individual or social units", capturing the essence of both perspectives – exchange and interaction between individuals.

An overview of trust

Knowledge on trust has been constantly developed and advanced in recent decades, especially on how it benefits business. In organisation and management studies, in particular, research has grown into a general consensus on the favourable effects of trust in business performance. For example, it is widely agreed that trust plays a positive role in promoting network relationships and collaborations (Child, 1998; Sundaramurthy, 2008), reducing role conflicts and transaction costs (Manolova *et al.*, 2007; Puffer *et al.*, 2010), integrating individual objectives for common interests (Discua Cruz *et al.*, 2013; Shi, 2014), and contributing to the development of a shared social identity (Schmidts and Shepherd, 2013). These effects are often amplified and become more explicit in SMEs (Cruz *et al.*, 2010; Welter, 2012), especially so if they operate in more traditional societies (Kriz and Keating, 2010; Ng *et al.*, 2007). In principle, trust is believed to benefit firm performance, and is therefore advanced as a contributing factor for sustaining performance.

Despite the general agreement on the effects of trust, differing views exist among researchers regarding the composition and dimensionality of trust. To date, research on trust has produced "no single consensual definition", leaving trust "an elusive concept" (Welter, 2012, p. 195). Scholarly conversations continue around the types or forms of trust, emphasising the sources, objects, and levels of intentions and trustworthiness of network actors, at an individual, organisational, or institutional level.

One particular stream of literature views trust as a dynamic construct that evolves as social interactions increase and relationships are gradually strengthened. Lewicki and Bunker (1996) submit a three-stage framework to investigate the evolution of trust. They argue that trust progresses in a gradual and sequential manner from calculus-based through knowledge-based to identification-based, primarily as a result of the increase in social interactions and tightening of interconnections (cf. Welch *et al.*, 2007).

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This stage framework is aligned with the evolutionary nature of trust and provides a "roadmap" for understanding the evolution of trust in a relational form (Nooteboom, 2002; Poppo and Zenger, 2002). In reality, however, trust does not necessarily accumulate in an aligned step-by-step sequence. Rather, development of trust can be reversible and dependent on a range of circumstances and relations that impact the calculation, knowledge, and identification. For example, kinship relations often provide a "short-cut" for identification-based trust (Lane, 1998) – primarily as a result of intense family socialisation (Shi and Dana, 2013) – with little to no calculus– or knowledge-based trust as prerequisites. Moreover, distinctions between stages are often ambiguous and hard to measure. To date, research has not been able to provide reliable and applicable criteria to capture the distinctiveness of each of the stages. Therefore, the stage framework largely remains a concept, rather than empirical work.

Alternatively, researchers have investigated the sources of trust and the objects that trust mainly relates to. Höhmann and Malieva (2005) identify three forms of trust, namely personal, collective, and institutional, occurring at micro-, meso-, and macro-levels, respectively (Humphrey and Schmitz, 1998). Similarly, Child and Möllering (2003) investigate foreign managers' trust in China and its effect on local employees' trust within organisations, observing that trust concurrently exists at interpersonal, organisational, and institutional levels. The different levels at which trust may develop originate from different sources, but appear to be interactive and inter-convertible when circumstances change.

Sako (1992), among others, focuses on trust in business relationships, and proposes three types of trust based on goodwill, competence, and contracts. Again, these types of trust can occur at different levels in different forms, depending on the circumstances under which social relations are shaped and developed. For example, although goodwill trust frequently exists between individuals who share values or norms (Fukuyama, 1995), such as family members, it can also occur between groups or organisations that have a common background, familiarity, or interest (Lane, 1998), like family clans, or in business partnerships where trust is often based on a binding contract or acknowledgement of competence (Lui, 2009).

Our focus in this study is on trust within family businesses, where interactions widely exist between individuals on the "family side" and influence the "business side" (Eddleston *et al.*, 2010; Zahra *et al.*, 2006; Zachary, 2011). Therefore, our investigations concentrate on the interpersonal level. To guide our work, we generally embrace Rousseau *et al.*'s (1998, p. 395) view that trust is "a psychological state comprising the intention to accept vulnerability based on positive expectations of the intentions or behaviour of another". By taking this broad view, we are allowed to investigate a wide range of trust that exists between actors in family businesses, and conduct comparisons between types of trust within individual businesses as well as across businesses. This stance is largely in accordance with Eddleston *et al.* (2010), who chose a similarly broad definition on trust.

Trust as social capital

Since the social capital literature first emerged (e.g. Bourdieu, 1985), trust has consistently been regarded as an important form of social capital. Putnam (1995), after investigating the sources of social capital, argues that social capital is in essence a result of trust and shared norms among actors within a social structure. While it is unclear what specific type, or types, of trust the author is referring, the argument is that trust is a necessary condition of social capital, without which durable social interactions become less possible, leaving little space from which social capital can be

derived (Anderson and Jack, 2002). Also, Nahapiet and Ghoshal (1998) suggest that trust, as a relational form of social capital, is an essential component in the development of social capital, requiring the presence of shared network ties (structural dimension), and a shared language and narrative (cognitive dimension). Nevertheless, we suspect that not all types of trust qualify as social capital. Importantly, the term "social capital" itself has a strong indication of the eligibility, which is restricted to resources derived from social relations that are able to create value and yield productivity (Antoldi *et al.*, 2011). Therefore, we view trust as social capital only when it has an effect on the firm's market performance (cf. Alder and Kwon, 2002; see also Arregle *et al.*, 2007), or entrepreneurial processes and outcomes as we specifically focus on in this study.

Trust and entrepreneurship

Given its usefulness in value creation and productivity, social capital is widely regarded as a facilitator for entrepreneurship. Indeed, social capital born of networking is conducive to opportunity discovery or creation from uncertain and ambiguous environments (Greve and Salaff, 2003), and can be mobilised through the networks to help access and acquire other forms of capital or resources to exploit the opportunity (Arregle *et al.*, 2007; Davidsson and Honig, 2003; Steier, 2007).

Existing literature tends to argue that by capitalising on trust the firm is able to produce competitive advantages (Antoldi *et al.*, 2011), hence superior performance (Ng *et al.*, 2007). There has been a recent increase in the number of studies on trust and entrepreneurship at their point of intersection (e.g. Casson and Della Giusta, 2007; Light and Dana, 2013; Welter, 2012). A variety of perspectives have been taken by researchers, including human resource management (Zolin *et al.*, 2011), financing (Howorth and Moro, 2006), the entrepreneurial team formation (Discua Cruz *et al.*, 2013), and business relationships (Fink and Kessler, 2010; Kriz and Keating, 2010). Many of these studies report a significant role of trust as the relational form of social capital in facilitating the firm's entrepreneurial performance.

Here, it is worth clarifying that it is not our purpose in this paper to advocate a positive effect of trust on entrepreneurship (cf. Davidsson and Honig, 2003; Jack and Anderson, 2002). Rather, we argue that as a form of social capital, trust can either facilitate or supress entrepreneurship, depending on the nature of trust and the entrepreneur's ability to realise and manage the involvement of trust in the entrepreneurial processes (cf. Zahra *et al.*, 2006). Recently, the social capital literature has suggested a "dark side" of trust on entrepreneurship. For example, by drawing on their investigations on entrepreneurial activities in the aboriginal communities of Alaska, Light and Dana (2013) submit that social capital – based on mutual trust and the norm of reciprocity – promotes entrepreneurship only when a supportive entrepreneurial culture is in place; otherwise, it may impose mental conformity on all actors in the network (Dana and Morris, 2007), which prevents innovative thinking and entrepreneurial undertaking from emerging (cf. Granovetter, 1973, 1985).

Similarly, Zhang's (2010) empirical study on using social networks in entrepreneurial resource acquisition concludes that although a long-term trusting relationship is conducive to evaluating the quality of resources or the resource exchange, it is likely to lock the actors within the trust-based loyalty relationship (Prause *et al.*, 2013), who either knowingly or unknowingly sidestep from new opportunities. Sharing our concerns with these authors, we aim to explore in this paper not only how trust facilitates entrepreneurial processes, but also whether the "dark side" potentially exists and how it might influence entrepreneurial performance of family businesses (De Massis *et al.*, 2013; Zahra *et al.*, 2006).

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Trust in family business

Does being a family business make a difference to firm performance? If so, what difference does it make, and how is the difference made? These are questions that family business researchers have endeavoured to answer over time, through a variety of different lenses. One specific lens is the development of social capital in family businesses (e.g. Arregle *et al.*, 2007; Kansikas and Murphy, 2011). Eddleston *et al.* (2010, p. 1044) contend that trust serves "as an organizing principle for family firms", particularly where family members form the entrepreneurial teams (Discua Cruz *et al.*, 2013) and play a critical role in strategic decision making, networking and relationship building, resource acquisition and organisation, and opportunity creation and exploitation (Shi, 2014).

In attempting to define family business, there is a tradition of viewing family business as a combination of family ownership and family management (Gersick *et al.*, 1997). While embraced by many, this approach nevertheless has been questioned. Perhaps, its major shortcoming is that it does not clarify whether a family-owned but not family-managed, or a family-managed but not family-owned business, is a family business. We acknowledge that a family business must have significant family involvement, either in the form of ownership or management, or a combination of both. Whichever form it takes, a family business is an organisation where trust provides a central and fundamental basis for intra-family cooperation (Discua Cruz *et al.*, 2013). Indeed, family involvement has an impact, explicitly or implicitly, on the firm's objectives, resources, and decision making (Shi, 2014), and trust from the "family side" is frequently transformed into trust on the "business side", and vice versa, often beyond economic rationale (Sundaramurthy, 2008; Zachary, 2011).

In fact, family businesses do not just provide a unique context for research on trust and social capital, but also for entrepreneurship inquiries, or perhaps more so for joint investigations of trust as a form of social capital and entrepreneurship. Researchers have made substantial efforts to understand the relationship between family dynamics and the firm's entrepreneurial performance. However, our knowledge about the specific role of trust in family business entrepreneurship is still remarkably little. Most studies report a positive relationship and advocate family businesses to create and sustain their trust relationships (e.g. Dyer, 2012; Sundaramurthy, 2008). Empirical evidence tends to be inadequate and is therefore highly demanded (Arregle *et al.*, 2007; Welter, 2012), not only on the positive effects, but also on the "dark side" of trust in entrepreneurial family businesses (Eddleston *et al.*, 2010; Zahra *et al.*, 2006).

Context of the study

For empirical explorations on the role of trust as social capital in entrepreneurial family businesses, we believe China provides a living "laboratory" where research objects are extensively available but surprisingly under-researched. In general, it is the unique institutional and cultural environments of China's private economy, as well as the entrepreneurial undertaking and the inter-generational nuances in Chinese family businesses that appeal to us as an ideal research setting.

On the one hand, China's economic reforms take a gradual, partial, and experimental approach, where the legacy of former centrally planned system often intervenes (Jones, 2004). This approach creates an environment in which entrepreneurship develops in a different pattern from the more advanced economies (Ahlstorm and Bruton, 2002). China's unique institutional environment has been described as rich in non-tradable inputs and resources (Krug and Hendrischke, 2002), alongside weak

capital structures, limited legal protection for property rights, ill-functioning information markets, and a lack of contractual security (Kriz and Keating, 2010). Due to policy ambiguity and continued distrust of the institutional systems, Chinese entrepreneurs often seek alternative sources of support, particularly familial networks (Poutziouris and Chittenden, 1996). Indeed, families play a central role in almost all aspects of private entrepreneurship in China, providing primary, durable, and stable sources of capital, labour, intelligence, and psychological support (Pistrui *et al.*, 1997).

On the other hand, Chinese culture, based on Confucian values, emphasises kin solidarity and trust (Redding, 1995; Sheh, 2001), which plays a crucial role in protecting the property rights of private entrepreneurs in the absence of clear and effective property rights laws (Peng *et al.*, 2004). There is a strong commitment to family in Chinese culture (Shi, 2013; Zapalska and Edwards, 2001). Family members and close relatives are far more trustworthy than other social members or organisations (Berger, 1994). Although institutional trust and contractual trust are relatively low in Chinese communities, interpersonal trust tends to be significant in long-term-oriented business activities (Lee and Dawes, 2005), with which family businesses manage their resources, build their key capabilities, and pursue entrepreneurial opportunities.

After three decades in business, most pioneering Chinese family businesses have transitioned, or are currently in the process of transitioning, through inter-generational succession. Second-generation owner-managers (SOMs) have emerged as a major force in China's private entrepreneurship. They are arguably more market oriented and less reliant on the non-tradable resources and capabilities derived from the family dynamics (Shi, 2013, 2014). Inter-generational disagreements, and even conflicts, commonly exist between the founder parents and the SOMs. Some of these differences contribute to entrepreneurial risk-taking and innovative outcomes; others depress the entrepreneurial mindset and lead the business to depart innovativeness (Shi, 2014). As the family dynamics and relations subtly change across generations, the emerging second-generation Chinese family businesses appeal to us as ideal cases in which social capital, trust, and entrepreneurship can be jointly explored.

Methodology and methods

Focusing on the role of trust in the entrepreneurial processes of second-generation Chinese family businesses, this study sought to investigate a range of cognitive and behavioural activities. On the one hand, these activities are generally not well understood and inadequately studied, especially in the context of family businesses as "the bulk of research conducted within business schools has ignored the family dimension of enterprises" (Heck *et al.*, 2008, p. 318). On the other hand, existing literature has not discovered how trust in family businesses promotes, or constrains, sustained entrepreneurship, particularly across generations. Neither a grounding theory nor promising evidence has been created about the interaction between trust and entrepreneurship in family businesses. Research on how trust influences entrepreneurial processes is nascent, and our knowledge about the evolution of trust and its effects on entrepreneurship in family businesses remains scarce. Needless to say, it is even scarcer in the Chinese context.

In the absence of an underpinning theory and conclusive data, we chose to employ a qualitative approach in this study, which provides methods to support understanding of what is likely to be found when existing information tends to be inadequate (Eisenhardt and Graebner, 2007; Morse and Richards, 2002; Pratt, 2009), enabling "quality, depth and richness in the findings" (Marshal and Rossman, 1999, p. 16).

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An important objective of this study was to explore and analyse empirical evidence for the conceptualisation of trust as social capital in the entrepreneurial family business context. This objective reinforced our rationale of employing qualitative research methods, in that descriptive and subjective data are required for generation of systematic insights (Reay, 2014; Reay and Whetten, 2011), with which conceptualisation and theorisation on social relations become possible (Eisenhardt, 1989, 1991).

In line with this thinking, we conducted case studies in the eastern Chinese province of Jiangsu, which is one of the first industrialised regions in China and characterised by the rapid development of family businesses and private entrepreneurship, hence, sufficient supply of eligible cases. Each case involved a second-generation family business. Here, to study trusting relationships at the intersection of the family and the business, we adopt a traditional approach to defining family business, where the business is owned and managed by the family (Gersick *et al.*, 1997), across generations (Handler, 1989; Ward, 1987). Therefore, a basic selection criterion was that the SOMs were key decision makers, even if the retired founders were still consulted at times. Although this study did not have an industry focus, all cases were from the manufacturing industry to reflect the fact that this is where most entrepreneurial family businesses in that region are located, as well as to provide a common ground on which cases were compared.

A list of potentially eligible case companies was provided by the first author's personal contacts in the local chambers of commerce. The first author made initial visits to 12 potential case companies to understand their suitability. The actual number of cases depended on the quality of collected information as the fieldwork progressed, particularly in line with the interim analysis and judgement on information saturation (Ghauri and Grønhaug, 2005; Yin, 2003, 2009). As interviews and observations continued, information was increasingly repeated, until such repetition became dominant in the seventh and eighth businesses, signalling that subsequent emergence of new themes would be significantly unlikely (Creswell, 1994; Yin, 2003, 2009). This saturation enabled an understanding of the trusting relationships and their effects on entrepreneurial processes, which in turn led to the development of a conceptual model and theory building (Eisenhardt and Graebner, 2007). As a result, this study eventually included eight small- to medium-sized Chinese family businesses (see Table I).

To achieve a wealth of information, and to ensure the trustworthiness of data collected from fieldwork (Eisenhardt, 1989), multiple methods were used, including semi-structured interviews, personal observations, and document inspections. Multiple interviews were conducted for each case company, involving the SOMs, employees from management and non-management positions, SOMs' family members and relatives who either directly or indirectly involved in the business, and external stakeholders like clients and government officials (see Table II). In general, having three to four interviews per case reduced dependence on any one individual, with the same information gathered from multiple sources helping to verify authenticity (Tellis, 1997).

Data analysis was largely a range of creative activities, through reading, re-reading, thinking, re-thinking, interpreting, and re-interpreting, to generate subjective understanding of the descriptive information from the field notes and scripts (Yin, 2009). In this study, analysis started as fieldwork went on, so that relevant emerging information could be compared with earlier cases and applied to explore later ones, which enabled the identification of cross-case patterns and overarching themes. An interpretative approach was taken mainly because of the qualitative

Company	From	Industry	Workforce	SOM's age at succession	SOM's siblings	Founder retired for
CHE92	1992	Chemical manufacturing, financing	1,000	24	1 younger sister	Lifestyle
HIT02	2002	High-tech R&D and manufacturing, real estate	250	28	1 elder brother	Lifestyle
MAC83	1983	Machinery manufacturing	90	32	2 elder sisters	Lifestyle
MAC90	1990	Machinery manufacturing	70	36	1 younger brother	Lifestyle
MAC94	1994	Machinery manufacturing, retailing	120	30	Nil	Other business
MAC95	1995	Machinery manufacturing	160	27	2 elder siblings	Lifestyle
TEX90	1990	Textile manufacturing	110	28	Nil	Other business
TEX92	1992	Textile manufacturing	180	31	1 younger brother	Health

Table I. Case company profiles

Company	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4
CHE92	SOM	Deputy manager (SOM's uncle)	Accounting manager	–
HIT02	SOM	Line manager	Founder's contact in local government	–
MAC83	SOM	Line manager (SOM's brother-in-law)	SOM's business partner	SOM's contact in local government
MAC90	SOM	Founder	Deputy manager (SOM's brother)	–
MAC94	SOM	Founder	Line manager	A frontline employee
MAC95	SOM	Founder	Marketing manager (SOM's brother)	External relations manager (SOM's mother)
TEX90	SOM	Founder	Deputy manager	A frontline employee
TEX92	SOM	Deputy manager	Line manager	–

Table II. Profile of interviewees

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nature of the study in general, and the descriptive nature of the data in particular (Creswell, 1994). As interviews were conducted in Chinese, which is the first author's native languages, the back translation technique (Brislin, 1970; Harkness, 2003) was used to guarantee the accuracy and credibility of the data translation.

Findings and discussion

Turning now to the findings, we compare the sources of trust, identify different patterns of trusting relationships, and examine their relevance to entrepreneurial processes in the eight second-generation Chinese family businesses. Discussion mainly focuses on the effects of trust on these processes, including a potential "dark side" of trust in family businesses. Table III provides a summary of emerging themes and relevant quotes from the interviews.

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Table III.
Trust in family businesses and its effects on entrepreneurial processes

Company	Trust	Source of opportunity	Opportunity exploitation	Outcome
CHE92	"Family members are easier to understand; you know them from early years. But I'd like to emphasise more on their abilities than relations to me […] And my father [the founder] doesn't intervene with my business, would you say it is trust?" (SOM) "His (the SOM's) uncle is deputy manager and a competent leader […] They have a good work relationship, maybe because they are relatives, or not?" (accounting manager)	"When I had a meeting in Beijing I overheard this product information. I thought it was not difficult at all technologically. So when I came back, I did some homework […] The experiment was eventually successful and I decided to start" (SOM) "It was completely by chance. We actually had the capacity, but didn't realise it could be done in that way" (deputy manager – SOM's uncle)	"It didn't require much. We had sufficient funds. Maybe the only thing we needed was to register a patent – we did, and it was fairly straightforward" (SOM)	Started new products; quality improved and sales increased quickly; now an industry leader in eastern China
HIT02	"We're not a feudal dynasty! The key is not whether you are from my family, but whether you're capable. Incompetent family members (and relatives) are harder to manage than non-family employees […] It has been openly declared that he (founder's deputy in 1st generation) is in charge when I am absent" (SOM) "I don't feel this is a family business. As long as you contribute, you receive what you deserve" (line manager)	"For a long time I'd thought of growing into new areas. The old business would be problematic as it was too capital-intensive […] we needed some sustainable input, a new direction that could help us jump out of the reliance on capital […] I first received the information from a trade fair in Shanghai, and thought maybe I could try" (SOM)	"It's a market economy […] eventually we hired a team of experienced technicians" (SOM). "Expertise was available, and it was the government's role to connect the company with the market" (SOM's contact in the local government)	Started an R&D centre; improved technology and productivity; became a leading developer and manufacturer of a high-tech product in the Chinese market
MAC83	"Frankly, for business, I'd trust my friends more than my father and brother; they made ridiculous decisions and didn't listen to me. My in-laws are even more competent […] so I pay my father and brother to leave the business" (SOM) "Maybe because he is my sister's husband […] I see the business my sister's business" (line manager – SOM's brother-in-law)	"They [the local government] understood our dilemma and tried to help us out" (SOM) "We approached them [business partner] for a partnership […] we had nothing to lose at that time" (line manager) "At first, we were hesitant […] but we needed extra capacity anyway" (SOM's business partner)	"The most important part was that they [business partner] agreed to let us try […] something went wrong there and I had to step in to offer a major concession" (SOM) "After all it was not my business and I had to be cautious in case too much was compromised" (line manager)	Restructured the business and started a new product; now a main supplier to a large SOE in China

(*continued*)

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Company	Trust	Source of opportunity	Opportunity exploitation	Outcome
	"The family experienced some hard time; in those years the business declined heavily […] There are obviously problems in the family" (SOM's business partner)	"We provided the information for several local companies, and they [MAC83] seemed to be the only one that was interested" (SOM's contact in the local government)	"We provided some help, but it was their [MAC83's] persistence that made a difference" (SOM's contact in the local government)	
MAC90	"My father and brother are not business talented. They made some money in early year simply because they were lucky […] they're after all my family, and I rely on them for routine jobs. That enables me to concentrate on strategic issues […] My wife doesn't work in the business, and she doesn't understand business, but sometimes she gives good advice" (SOM) "The business shrank in my hand; it was certainly better for my son to take it over than a closure […] I don't really understand what he does, but believe he is a better manager" (founder)	"My former employer was keen to help me, and he gave me huge support when I first took over my father's business […] We developed the business together and continue to support each other" (SOM). "He (the SOM) had many friends in the business circle […] He just wanted to change the business, so he was very active meeting with his friends" (Deputy manager – SOM's brother)	"I have business partners and together we have a bigger pool of resources […] Today I use some of yours, and tomorrow you'll use some of mine […] Even the assemble line was borrowed from my former boss […] The initial capital, the money, was all from my wife's and my own pockets, and her brother might have also helped a bit, I can't remember" (SOM) "I wanted to give him [the SOM] some money, but he rejected; he told me not to worry" (founder)	Started a new business mainly subcontracting to a large firm while exporting surplus products
MAC94	"My father [the founder] is a critical part of the business, although he has retired […] He still offers to help and I know he is always keen […] I'd help my family and relatives if they approach me, but they shall not take important positions if they don't have the required skills and knowledge […] My husband doesn't work in the business, but his ideas often tend to be valuable" (SOM) "I may have different views, but she [the SOM] is in charge now, so I'd better leave it to them (the SOM and her husband) […] but she can	"It was one of my husband's distant aunts who mentioned the product at a family reunion. I heard that and thought that should be something we were able to produce. We then approached her some time later […] and she connected us with the factory (which was in financial difficulty) […] So I decided to employ the engineer (from the factory) […] He's now my chief engineer" (SOM)	"It was initially a partnership; he (the engineer) and I shared the costs […] we went to Tianjin (an industrial city in northern China) several times […] the negotiation was hard but we succeeded, and they agreed to subcontract the production and transfer the IP right" (SOM) "I offered to help with the starting funds, and she didn't accept" (founder) "She [the SOM] left all routine management to the team, and went on	Started a new product and established its own sales networks; expanded rapidly to both regional and national markets

(*continued*)

Table III.

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Table III.

Company	Trust	Source of opportunity	Opportunity exploitation	Outcome
	always seek help from me if she needs – so far it has not happened" (founder – SOM's father) "Our opinions are often asked for, and I think working here is very simple and comfortable" (an employee)		to negotiate for the subcontracting agreement […] I think she received help from her friends from the business circle" (line manager)	
MAC95	"I certainly trust my family, as you always hear 'blood is thicker than water' […] He [father] has retired but that should not exclude him from the business, because he first created the business for us [the family] and he is still the leader of the family […] As for my relatives, they are also part of the [extended] family, and as long as there is a need AND (as emphasised by the interviewee) they're capable, I'd welcome them on board" (SOM) "Although he is in the back row now, my father should always have the right to make decisions, and my brother [the SOM] won't have any problem" (Marketing Manager – SOM's brother) "I actually make no big contributions, but my family is the business, and everyone in the family is a part of the business" (external relations manager – SOM's mother)	"A friend of mine, who I worked with for quite a few years in the local government before I quitted and started the business, provided the information […] Otherwise we wouldn't be able to connect to them [the client]" (Founder – SOM's father) "I've known him since my childhood. We [the brothers] call him "uncle" and he's like a brother of my father" (SOM)	"The government provided assistance; they endorsed our application for a loan from the bank" (SOM) "My friend helped us apply for funds. You know, he works in the local government, a really helpful friend […] we've known each other for nearly 40 years now" (Founder) "We're a small business, and we have to rely on each family member to reach out for what we [the business] need" (marketing manager)	Upgraded machines and improved productivity and quality; now a supplier to a leading car manufacturer in China
TEX90	"It is something simple and natural; you've got to trust your parents, especially when you [I] manage a business that was created and passed on by them […] I view it as my responsibility to keep the business in a good shape, as it was given to me by my father" (SOM) "She [the SOM] is doing a hard but good job,	"He [father] once came back from a dinner with some of his former classmates, one of whom had an export company" (SOM) "We went to school together, and his son now has a foreign trade company […] he told me this and	"It's not too difficult. My father provided all funds for the extra line of business" (SOM) "There was no need to borrow [from bank] and bear the interest. I had the money and who else should I give it to if not my own daughter and business?" (Founder)	Started exporting through an agent

(*continued*)

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Company	Trust	Source of opportunity	Opportunity exploitation	Outcome
	and as a father I can't simply leave everything to her. At least I am a mentor" (founder – SOM's father) "They [SOM and family] treat us very well. But it's their business, and no doubt he [founder] still has power" (An employee)	I thought that might be useful" (founder)	"No, it didn't result in significant amount of extra workload. In fact, everything was looked after by the bosses [the owning family] and their friends who helped with the exports" (deputy manager)	
TEX92	"Wherever possible I'll try to avoid employing family members and relatives […] especially relatives, they may produce more troubles than value, if they have no relevant skill but only the common blood […] My deputy can act on my behalf when I am away, and he's not from my family" (SOM) "It's respect rather than trust, I guess […] he (the SOM) respect my experience and expertise, and I respect him as a boss. After all, it is he who pays me to work here" (deputy manager) "We report to the deputy manager in the manager's absence; it's been a usual practice" (line manager)	"The market was changing, and we had to adapt to the change […] The profit was fine, but there was a hidden danger […] I was sort of searching for a solution" (SOM) "It wouldn't take long for the business to decline […] Technology upgrading was the key – he [the SOM] was very clear about this" (deputy manager) "Everyone got homework to do […] we were told to think about the market and industry" (line manager)	"We had to be careful; I couldn't afford losing my strengths […] but I was able to create extra capacity for it [a new product] […] I even didn't need to train them [new employees]; they trained me" (SOM) "Obviously, if money could solve the problem, it was not a real problem" (deputy manager)	Restructured the business and started a new product; optimised production and achieved better quality at a lower cost

Table III.

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Levels and sources of trust

First, it is notable across the eight family businesses that trust played a significant role in their daily management, and particularly in their entrepreneurial processes. Here, it is by and large the individual-level interpersonal trust that prevailed, as is typically true with small- to medium-sized family businesses, confirming existing literature (e.g. Antoldi *et al.*, 2011; Discua Cruz *et al.*, 2013). In these businesses, organisational structure is often nuanced by family ownership and management and provides a very unstable ground for trust to develop at a more collective level (Eddleston *et al.*, 2010; Steier, 2001). All SOMs referred to interpersonal trust as a critical and indispensable resource that either "facilitated" or "promoted" their opportunity creation and exploitation. On reflection, there were two common effects of interpersonal trust in the entrepreneurial processes of these businesses. On the one hand, it effectively freed the SOMs from routine and miscellaneous operations, enabling them to concentrate on business development and entrepreneurial venturing. On the other hand, the interpersonal affect-based trust often directed the SOMs to sources of necessary resources for their opportunity creation and exploitation, which were not easily accessible if the trusting relationships had not been in place.

Second, it is evident from our work that individual competence and interpersonal goodwill constituted the most reliable and durable source of trust in the Chinese family businesses (cf. Lewicki and Bunker, 1996). Contractual relationships, however, remained a marginal contributor to the making of trust in these businesses. Not surprisingly, family and kinship relationships provided the most profound base on which goodwill grew over time. In nuclear and extended family relationships, the primary socialisation usually results in members accepting and internalising the same or similar family values and norms (García-Álvarez *et al.*, 2002; Shi and Dana, 2013). The proximity and homogeneity of family relationship normally generate a positive mutual perception, a high level of altruism, and a commitment to trusting and benefitting family members (Discua Cruz *et al.*, 2013). Indeed, unless the family relational order is damaged by a critical incident, such as radical disputes or conflicts, immediate family members receive the greatest goodwill trust while distant and less engaged relatives do very little. Across the eight Chinese family businesses, trust between immediate family members was generally greater than with relatives. In most cases, there were stable trusting relationships between the SOMs and their parent founders, which had an ongoing impact on the businesses.

On the other hand, we also found that family members were not always more trusted than non-family employees or friends by the SOMs (cf. Berger, 1994). As reported in Discua Cruz *et al.* (2013), individual competence has arguably become an additional base on which trust in family businesses develops, and its significance tends to be no less than that of goodwill, which our study mirrors. At MAC95, for example, the SOM's family members were apparently the most trusted. They dominated the management of the business and all decision making. As the SOM claimed, which was endorsed by his brother and retired father, it was impossible to differentiate the business from his family and only on the family that he could rely. His justification was simple, as "blood is thicker than water". Here, the kinship goodwill dominated the formation of MAC95's trusting relationships. Interestingly, although nearly all family members of the SOM actively involved in MAC95's business, including the SOM's wife, brother, sister-in-law, and "retired" parents, no relatives worked in the business. The SOM explained that there was "no need" at the moment, but they would be considered when a need emerged and if they had suitable capabilities. Reflecting on the

SOM's remarks, at least two types of trust were indicated here, namely "goodwill trust" for close family members, which derived from the familial relationship (the "blood" connection), and then "competence trust" for others – including distant relatives – on the base of business need and individual capabilities.

Based on the findings and discussion thus far, we put forward our first proposition:

P1. Trust in small- and medium-sized Chinese family businesses is mainly constructed at the interpersonal level, on the basis of kinship relationships.

Patterns of trusting relationships

Employment is certainly not the only indication of trust in family businesses, nor perhaps the most important. Of the eight Chinese family businesses, MAC95 was the only one in which family members were overwhelmingly involved in the day-to-day business activities. Of the other seven businesses, HIT02, MAC94, TEX90, and TEX92 employed no one from the SOM's family; CHE92 and MAC90 employed only one family member; and MAC83 had its SOM's brother-in-law as a line manager. It was important, therefore, to understand who had the role or responsibility, formal or informal, as the "second person" in each business. This person was not necessarily an employed deputy of the SOM, but had significant influences on decision making and was recognised by internal and external stakeholders, either explicitly or implicitly, as someone who had the authority to act in the SOM's absence (cf. Shi, 2014). Understanding the decision making underlying the choice of "second person" provides insights into the trusting relationships in each business.

As Table IV depicts, a "second person" existed in each business, who was either explicitly appointed within the employment structure or implicitly recognised by both internal and external stakeholders, particularly the management team. Based on the analysis of the interview data and on site observations, we identified three patterns of trusting relationships in these businesses which represented, in principle, three combinations of goodwill, competence, and contractual trust.

In the first pattern, MAC95 and TEX90 both had their retired founders as their "second persons", and this arrangement was explicitly made aware to all stakeholders in both cases. Although they still acted as "senior advisors", both founders had retired and were no longer engaged in the business on a daily basis, and there was no contractual arrangement between them and the businesses. However, their roles in the businesses were critical, arguably indispensable. Their influence was significant on the firm's decision making and strategic development, particularly in the entrepreneurial processes where resources were needed to create and exploit new opportunities.

Business	Position of "2nd person"	Relation to SOM	Explicit/implicit appointment
CHE92	Deputy Manager	Uncle	Implicit
HIT02	Senior Advisor	Father's deputy in 1st generation	Implicit
MAC83	Line Manager	Brother-in-law	Implicit
MAC90	Not an employee	Wife	Implicit
MAC94	Not an employee	Husband	Implicit
MAC95	Founder	Father	Explicit
TEX90	Founder	Father	Explicit
TEX92	Deputy Manager	Father's line manager in 1st generation	Explicit

Table IV.
The "second person"

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They were trusted primarily because they started and led the businesses; more importantly, they were parents of the SOMs who chose to rely on their good intentions. It was the mutual goodwill between the parent founders and SOMs that laid the primary foundation for the trusting relationships in these two businesses.

The second pattern was represented by CHE92, MAC83, MAC90, and MAC94, where a "second person" was from the respective SOMs' families or family clans. Here, we see trust structured around a careful calculation of competence as a sufficient condition, while goodwill was considered necessary. MAC90's SOM, for example, commented that although his wife did not work in the business, she gave "intelligent" advice which was highly valuable and helpful for the business over time. The SOM also emphasised the marriage and family tie which made his wife "naturally" trustworthy, "even if she had not been business talented and capable". A similar view was expressed by the SOMs of CHE92, MAC83, and MAC94. Slightly differently, MAC83's SOM based his trust on his brother-in-law's competence and the goodwill towards his sister and her marriage. Perhaps, there was, to some extent, contractual trust in the cases of CHE92 and MAC83, where the "second persons" – both were relatives of the SOM – were formally employed by the respective businesses, having position responsibilities and hierarchical powers. However, it was difficult to judge or measure when the kinship ties overwhelmed.

HIT02 and TEX92 indicated the third pattern, in which kinship goodwill was far less apparent, giving way to considerations of individual competence and contractual commitments. The "second persons", arguably as the most trusted persons, were both non-family employees who had worked in the businesses since their inceptions. As such, a sense of belonging and sense of loyalty towards the businesses had been developed. These paved a stable ground for goodwill to grow between each of the SOMs and their respective "second person". However, it was fundamentally their competence that was perceived and recognised through their long service in the businesses that shaped their trustworthiness. According to TEX92's SOM, his deputy was "evidently a capable and reliable professional manager who had made significant and consistent contributions to the business since its founding". Likewise, HIT02's SOM believed that his senior advisor was "a highly committed professional and always did justice to the position and responsibilities associated to his position". These remarks, coupled with our observations on site, suggested that in HIT02 and TEX92, individual competence and contractual employment, respectively, constituted the primary and secondary considerations in their trusting relationships.

Overall, our work has confirmed existing literature on that trust in small- to medium-sized family businesses inclines to a concentration on the interpersonal level (cf. Child and Möllering, 2003; Fukuyama, 1995). In addition, we have also found evidence to question the argument that kinship altruism dominates the trust structure in family owned and managed businesses (cf. Sundaramurthy, 2008). Our findings indicate that although family and kinship goodwill continues to be a major – or the most observable – source of trust in small- to medium-sized Chinese family businesses, individual competence has become an increasingly important consideration in the trusting relationships (Lane, 1998). Perhaps, it is partially a result of the government-led advocate of market orientation in China's private sector towards a "socialist market economy", which views the traditional family value orientation as a hindrance to the "modernisation" of SMEs (Shi and Dana, 2013). Meanwhile, the SOMs grew up with the constantly improved institutional environment and were generally more agreeable with the Chinese government's teaching of "modern enterprise system". As MAC94's SOM commented, "after all, a good intention does not bring outcomes, while competence

does". Although the family goodwill and individual competence combined constitute the main source of interpersonal trust in Chinese family businesses, we were also able to observe some emerging indications of contractual trust in these businesses. Hence, our second proposition:

P2. Alongside China's institutional changes, trust in Chinese family businesses progresses to less kinship-based types.

Effects of trust on entrepreneurial processes

Arguably, the start-up of family businesses is a result of entrepreneurial undertaking, if we take a new venture creation point of view to define entrepreneurship. In this paper, we are more interested in the effects of trust on entrepreneurship in established family businesses, especially across generations. We therefore take a Schumpeterian approach and emphasise the innovative nature of the entrepreneurial behaviours in established businesses. In line with this thinking, we investigated the relationships between trust and: the source of opportunity, resource acquisition and deployment, and the nature of innovations produced.

It is increasingly agreed in existing literature that trust, as a relational form of social capital, can benefit small- and medium-sized entrepreneurial family businesses (Antoldi *et al.*, 2011; Ng *et al.*, 2007). Leveraging trust networks, potential opportunities, and key resources from otherwise remote sources become available and accessible (Arregle *et al.*, 2007; Davidsson and Honig, 2003; Steier, 2007). Also, trusting relationships are believed to be effective in reducing transaction costs (Manolova *et al.*, 2007; Puffer *et al.*, 2010) as they often convert the formal transaction processes into flexible and informal engagements where altruism rises (Hubler, 2011; Kansikas and Murphy, 2011), which in turn eliminates the costs, on credit assurance for example. We have found in this study that such benefits are widely realised and sought in small- and medium-sized Chinese family businesses, where trusting relationships are mainly grounded on interpersonal goodwill and individual competence. In addition to accessing potential opportunities and resources, it is arguable that the most significant role of trust in family business entrepreneurial processes was to strengthen the SOMs' willingness to accept and further explore the ambiguous and incomplete initial information. All eight family businesses in this study reported a strong link between their trusting relationships and the determination to exploit a perceived opportunity (see Table III), which often required a change to their existing business models, hence risks and costs.

As Figure 1 indicates, when the trusting relationships were primarily structured around kinship goodwill (i.e. MAC95 and TEX90), a family-focused value orientation tended to be more likely to guide the firm's entrepreneurial processes. Opportunities were mainly perceived and created from internal environment, in the belief that pursuing these opportunities would strengthen the existing business and improve the firm performance without having to radically change existing practices, hence the minimisation of cost and risks. In contrast, a combination of competence and goodwill trust (i.e. CHE92, MAC83, MAC90, and MAC94) enabled the businesses to reach otherwise remote networks for potential opportunities and resources, with fewer "restrictions" from existing business. These businesses were therefore more open to information from the market domain, as opposed to the company's internal environment. This is similar to the third pattern (i.e. HIT02 and TEX92), where trust was formed mainly on the basis of individual competence, with little relation to kinship

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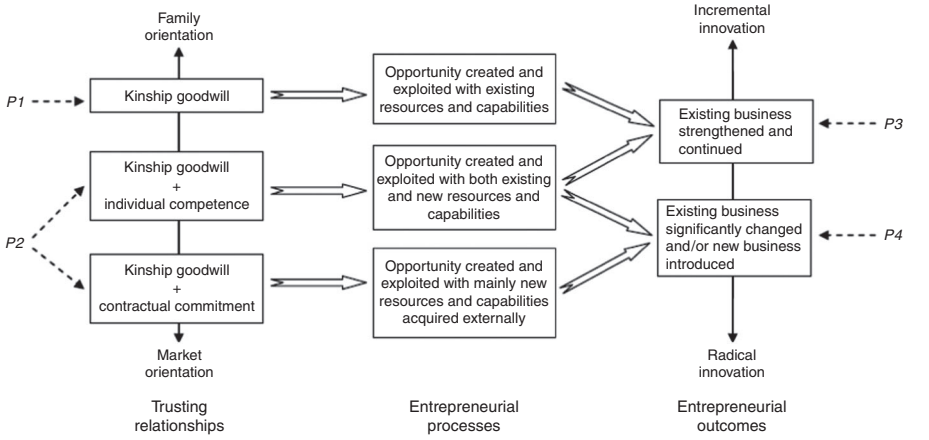
Family orientation
Incremental innovation
P1
Kinship goodwill
Opportunity created and exploited with existing resources and capabilities
Existing business strengthened and continued
P3
Kinship goodwill + individual competence
Opportunity created and exploited with both existing and new resources and capabilities
P2
Existing business significantly changed and/or new business introduced
P4
Kinship goodwill + contractual commitment
Opportunity created and exploited with mainly new resources and capabilities acquired externally
Market orientation
Radical innovation
Trusting relationships
Entrepreneurial processes
Entrepreneurial outcomes

Figure 1.
Family business trust and entrepreneurship

goodwill. This pattern is the most market oriented, and the only one in which contractual trust was perceived. To summarise the findings on the effects of trust on family business entrepreneurship, we incorporate the third and fourth propositions:

P3. Goodwill trust is associated with a greater family orientation, and leads the entrepreneurial processes to incremental innovations.

P4. Contractual trust is associated with a greater market orientation, and leads the entrepreneurial processes to radical innovations.

The potential "dark side" of trust

Despite the benefits, we have also tracked "side effects" of trust on the entrepreneurial processes, some of which may qualify as "negative effects" as per Zahra *et al.*'s (2006, p. 548) classification. For example, we noticed a typical "strong-tie effect" in opportunity recognition and exploitation (cf. Granovetter, 1973), which was arguably a result of the strong interpersonal trusting relationship, leading to oversight of potentially valuable information from distant and less trusted sources. This effect was especially apparent in MAC95 and TEX90, where an ongoing and stable trusting relationship was in place between the SOMs and their respective founders, primarily based on the kinship goodwill. Both SOMs embraced the founders' ongoing involvement in their business after succession, and emphasised the continuity of the first-generation legacy. Their entrepreneurial processes both started with an intention to optimise existing business practices, and were oriented by the internal assessment and review of existing business activities. Thus, both businesses did not actively engage with external networks, where weak ties might have connected them to more radical opportunities. Both SOMs of MAC95 and TEX90 tended to rely heavily on their families, especially the founders, to make and implement decisions; non-family stakeholders, who might have injected extra "newness" and "openness" to the entrepreneurial processes, were not essentially involved in the firms' opportunity creation and exploitation, presumably because they were outsiders and less trusted (Zahra *et al.*, 2006).

In comparison, CHE92, MAC83, MAC90, and MAC94 took a far greater market orientation in their entrepreneurial processes and produced radical innovations to their existing business. Reflecting on their trusting relationships, it is notable that besides

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kinship goodwill, competence was an additional consideration in the formation of trust, and the SOMs were capable of relying on specific competence for specific purposes in the entrepreneurial processes. The emphasis on competence allowed the SOMs to be more open to information from sources external to their existing trust networks. They then used this information to create opportunities and implement innovations of a higher level of "newness". On the other hand, there is a possibility that the entrepreneurial processes lead to different outcomes, if not a failure, when the trustee's competence is overestimated (Zahra *et al.*, 2006). In MAC83's case, for example, the SOM relied in the first instance on his brother-in-law to negotiate for a desirable price with the firm's main suppliers, and had to approach the suppliers in person later on because a favourable outcome was not achieved. According to the SOM, "the negotiation came into a dead end, which would seriously delay the project so that the company would 'miss the boat"'. As a matter of fact, the SOM realised his excessive trust and overconfidence in his brother-in-law and made it up in time. In this case, the excessive trust in individual competence led to extra costs and may have misguided the entrepreneurial processes (cf. Welter, 2012).

As mentioned above, contractual trust remains the least common type of trust in Chinese family businesses, primarily because of the lack of a sophisticated and well-functioning legal system that underpins the reliability and trustworthiness of contractual relationships. Although there were some vague indications of contractual trust in our case companies, especially HIT02 and TEX92, they were fragmented and insufficient for a meaningful analysis. HIT02 and TEX92 were the least family-oriented businesses with respect to direct family involvement, and their trusting relationships were mostly built on individual competence and position responsibilities. Unlike MAC95 and TEX90, there was very little affect-based goodwill in the formation of trust in HIT02 and TEX92, and individuals were trusted specifically in their competent areas, which were often reflected through the contractual structure. In practice, the position-specific competence trust required both SOMs of HIT02 and TEX92 to coordinate activities across different positions in the entrepreneurial processes, which was potentially costly. As Zahra *et al.* (2006) suggest, transfer of knowledge and expertise from trustees to outsiders is very difficult, particularly when there is a lack of goodwill, which undermines altruism.

Conclusions

Both family business and entrepreneurship literatures have found trust an important construct. However, studies on the role of trust as a relational form of social capital in entrepreneurial family businesses are still nascent (e.g. Discua Cruz *et al.*, 2013). In this study, our main purpose is to contribute to understanding the role of trust in entrepreneurial family businesses. To do this, we asked two questions exploring where trust originated in family businesses and what effects it had on entrepreneurial processes. In answering these questions, we adopted an inductive exploratory approach by focusing on second-generation Chinese family businesses. Our study confirmed that trust, in the entrepreneurial Chinese family businesses studied, is mainly constructed at the interpersonal level. In China's transition economy, organisational and institutional-level trust is still a novelty, and may only grow as the cultural and institutional environment gradually evolves.

On the other hand, we also found that trust structure in Chinese family businesses was different from what the literature assumed. Although kinship-based goodwill still provides the primary foundation on which trust in family businesses forms,

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competence-based trust has been increasingly evident, which allows non-family players to take a crucial role in the firm's entrepreneurial performance. This finding is relevant to answering the second question as well, where we found a positive relation between competence trust and a greater openness in sourcing entrepreneurial opportunities and acquiring remote resources to exploit these opportunities, hence a greater external market orientation. Although these findings, as well as propositions we incorporated in our analysis, still need further efforts to testify, perhaps through larger-scale studies by using mixed methods, we have made three contributions to the literature and provided insights for re-thinking the relationship between trust, social capital, and entrepreneurship in family businesses.

Contributions and implications

First, we contribute to the theorisation of trust as a relational form of social capital. We have identified patterns of trusting relationships by drawing on their levels and sources, and related these patterns to investigating their varying effects on the entrepreneurial processes of family businesses. Therefore, we argue that trust is a dynamic construct that develops in different patterns from different sources, and results in different outcomes. We discovered enormous interpersonal trust, stemming from individual-level interactions, either on the "family side" or the "business side". This clarification helped define the level of analysis and articulated the grounds on which trust was formed and maintained. The development of trust, and social capital, is largely subject to the specific contexts in which social interactions take place. Therefore, understanding of trust as a relational form of social capital and its effects is authentic and realistic only when the contexts and antecedents of trust are clarified.

Second, we have provided insights into the role of trust in the trans-generational Chinese family business context. Although the traditional view is evidenced in our study that kinship goodwill continues to be a fundamental base of trust in small- and medium-sized Chinese family businesses, we have also found a subtle difference in the structure of trusting relationships. Individual competence, and contractual commitments, began to play a greater role in the formation of trust. This has implications on the value system of second-generation Chinese family businesses, which was arguably in a transition from a family orientation to a market orientation, particularly in the entrepreneurial processes (Lumpkin *et al.*, 2008).

Third, we question the "benefits" of social capital by documenting the "side effects" of trust on entrepreneurial processes and outcomes. As such, we have extended the knowledge of social capital. Overall, there is a danger of the "strong-tie effect" in the interpersonal trusting relationships based on either goodwill, competence, or contractual commitments, which restricts the trustor to rely on the trustee and the trustee's networks to seek valuable information, acquire and deploy resources, and evaluate and exploit a potential opportunity. This exclusive reliance is likely to result in oversight of opportunities from remote sources, where an established trusting relationship is not in place and the tie with the entrepreneur is weak (Granovetter, 1973). On the other hand, unrealistic over-estimate of the trustee's competence may lead to extra costs, or even performance failure, when the trustee's actual lack of competence results in negative outcomes. Trust is vulnerable and easy to be damaged in such cases, and repairing it usually requires a high level of commitment and determination (Dyer, 2012). Contractual trust continues to be weak in second-generation Chinese family businesses and its effects on entrepreneurship tend to be marginal. It is arguable that trust based on a contractual relationship strongly emphasises activities and responsibilities that are associated with

the position, and is difficult to transfer to other activities in the entrepreneurial processes, hence a need for coordination and alignment of different sets of activities. These "side effects" combined provide empirical evidence for understanding the potential "dark side" of trust in entrepreneurial family businesses.

Besides the theoretical and empirical contributions, this study provides practical implications for family business owner-managers and policy makers. On the one hand, owner-managers need a balanced view of who they can trust on what type of jobs. Sole reliance on kinship goodwill, individual competence, or contractual commitments is likely to incur extra costs, in both economic and non-economic terms, to the firm's entrepreneurial processes. Therefore, owner-managers are suggested to better understand why they have trust in certain actors in their business and social networks before assigning resources, including human resources, to specific business activities. On the other hand, while the Chinese government has advocated a "modern enterprise system", where private firms are encouraged to be more market oriented, policy makers need to recognise the "benefits" of the traditionally family-oriented values and that kinship-based trust is also a relational form of social capital and can produce entrepreneurial outcomes.

Limitations and future research

This study also has some limitations, one of which is associated with the interview processes. Although most interviewees were willing to share information in an open manner, some were noticeably uncomfortable with interviews on the company premise and responded with relatively vague information or bypassed the topic. This was more notable among interviewees who were neither the SOM's family members nor from a management position. Restricted by the local business norm, interviews with employees had to happen during business hours on the site of the company. The second limitation concerns the data processing, particularly the translation of the data. Although the first author's first language is Chinese and the back translation technique was used to ensure the trustworthiness of the translated texts, it is still possible that some meanings might have been lost or twisted during the course of translation. Lastly, findings from this study indicate that there is a potential limitation with regard to the exhaustiveness of the sample, which was hard to predict beforehand, but could be addressed in future research by increasing the sample size. The three patterns of trusting relationships and the "side effects" may not be representative; there maybe other patterns and effects as well, predominantly pertinent to contractual relations, which were not identified in this study.

Since trust is an elusive and heterogeneous concept (Welter, 2012), we call on researchers to specify the levels, types, and sources of trust, in line with their research purposes. Additionally, the less family-oriented trusting relationships in second-generation Chinese family businesses may suggest inter-generational differences (Beck *et al.*, 2011), which call for further studies investigating the first-generation dynamics from the family and business systems (Zachary, 2011) as well as the impact of China's transitional socio-economic and socio-cultural contexts. To further examine our propositions on the making of trust and the effects of social capital on entrepreneurship, particularly the "dark side" of trust, larger-scale empirical studies are needed by using both qualitative and quantitative methods. Also, drawing on our investigation in the general context of China's transitional economy and institutional structure, how trust in family businesses evolves as a relational form of social capital in other economies can also be a promising area for future research.

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